BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 95-161-G - ORDER NO. 95-1617

OCTOBER 25, 1995

IN RE: Annual Review of Purchased Gas Adjustment and Gas Purchasing Policies of South Carolina Electric & Gas Company.	)	ORDER APPROVING COST OF GAS AND ENVIRONMENTAL CLEAN-UP COSTS

On October 19, 1995, the Public Service Commission of South Carolina (the Commission) held its Annual Review of the Purchased Gas Adjustment (PGA) and the Gas Purchasing Policies of South Carolina Electric & Gas Company (SCE&G or the Company). Also, pursuant to Order No. 94-1117, dated October 27, 1994, in Docket No. 94-008-G, the Commission considered the collection of environmental clean-up costs for the period under review.

By letter, the Commission's Executive Director instructed the Company to publish a prepared Notice concerning the annual review of the PGA and the Gas Purchasing Policies, one time, in a newspaper of general circulation in the area affected by the Company's Application. The Notice indicated the nature of the review, and advised all interested parties of the manner and time in which to file appropriate pleadings for participation in the proceeding. The Company was instructed to directly notify all of its customers affected by the review of the PGA, also. The Company submitted affidavits indicating that it had complied with these instructions. A Petition to Intervene was filed by the Consumer Advocate for the State of South Carolina (the Consumer Advocate).

A hearing on the annual review was held on October 19, 1995 at 10:30 a.m. with the Honorable Rudolph Mitchell, Chairman, presiding. SCE&G was represented by Francis P. Mood, Esquire; the Intervenor, Consumer Advocate, was represented by Elliott F. Elam, Jr., Esquire; and the Commission Staff was represented by F. David Butler, General Counsel, and Catherine D. Taylor, Esquire.

At the time of the hearing, the Company presented the testimony of Warren A. Darby and Carey M. Flynt. The Commission Staff presented the testimony of Joe Maready, Brent L. Sires, and William O. Richardson.

Warren A. Darby, Vice President, Gas Operations of SCE&G, presented testimony explaining the gas purchasing policies of SCE&G, and the importance of the Industrial Sales Program (ISP). Darby further testified about the Manufactured Gas Plant-Environmental clean-up costs (MGP-ECC) factor.

Darby testified that SCE&G has a contract with South Carolina Pipeline Corporation (SCPC) to provide all of its natural gas requirements under SCPC Tariffs DS-1, DISS-1, and the ISP Rider (ISP-R), all of which have been approved by the Commission. SCE&G receives an invoice from SCPC each month. Darby testified that SCE&G receives its gas from SCPC through 113 delivery points where the gas is metered and billed on a monthly basis. Darby's further testimony indicated that SCE&G does not own or operate a pipeline system connecting these various delivery points. Darby noted that SCE&G relies on SCPC as a merchant of gas for several reasons. First, SCPC, according to Darby, has staff in place to fulfill this function. Second, SCPC aggregates demand for approximately 16 sale-for-resale distribution companies, and therefore, becomes a stronger participant in gas markets. Darby also stated that SCPC can negotiate larger and more favorable long-term gas supply contracts than could any single company standing alone. Third, as an aggregator of demand, Darby testified that SCPC has superior ability to deal with marketing and supply.

With regard to the ISP-R, Darby testified that the Plan has been subject to periodic review and continuation by the Commission. Under this procedure, customers with contracts containing a competitive fuel rate advise the Company several days prior to the beginning of the billing period of the as-fired cost of their alternate fuel. The Company subtracts its markup and then makes an allowance for system losses and revenue taxes to determine the maximum price it can pay its supplier for the volume of gas required to purchase and resell to the customer invoking the competitive fuel rate. To the extent that the Company's supplier has ISP-R volumes available, the Company purchases these volumes required for all competitively priced customers. Darby testified that any margins collected from ISP-R sales above the contracted margins are credited to the customers as a credit to SCE&G's weighted average cost of gas (WACOG). Darby also stated that, during the period of September 1994 through August 1995, the elimination of the ISP-R Program would have resulted in the elimination of virtually all of the ISP-R sales for SCE&G.

Darby also related several steps by which SCE&G has attempted to ensure a reliable gas supply to all of its customers, including the use of propane air plants. All in all, Darby stated that SCE&G's reliance on SCPC as a merchant reduces administrative costs, increases effective market power, and increases system reliability in an increasingly challenging deregulated market.

Darby further requested that the Commission approve current and future legal expenses related to the MGP-ECC factor in the yearly PGA review. He also stated that SCE&G plans to reduce the balance of the environmental liability by the insurance proceeds it may receive.

Carey M. Flynt testified and provided cost of gas data for the period September 1994 through August 1995, the historical period under review in this proceeding. She also provided computations for the projected cost of gas per therm for the period November 1995 through October 1996, and further, recommended a cost of gas component to be included in the Company's firm published tariffs beginning with the first billing cycle for November 1995. Ms. Flynt also presented testimony regarding the Company's method of recovery for manufactured gas plant-environmental clean-up costs (MGP-ECC). Flynt provided discussions on the MGP-ECC factor on a per therm basis for the period November 1995 through October 1996 to be passed through in the PGA. This calculated figure amounted to $0.006 per therm in

Order No. 94-1117, and Flynt proposes no change. Flynt testified that the Company has made actual expenditures of $3,225,914 in environmental clean-up.

Flynt testified that the Company's currently approved rate for the cost of gas is 51.058 cents per therm, which was approved in Order No. 94-1117, dated October 27, 1994. Flynt testified that the Company has an actual under-collection of $232,536 as of August, 1995. Flynt noted that the under-collection of gas costs was less than expected, due to South Carolina Pipeline Corporation (SCPC) passing on to their firm customers reductions in Southern Natural Gas Company (Southern) Firm Transportation Reservation Charges and Gas Supply Realignment (GSR) Surcharges as well as lower than forecast supply costs.

Flynt also testified about the Company's projected gas cost for the period November 1995 through October 1996. Flynt then went on to recommend that the Commission approve a rate of 43.081 cents per therm in the Company's firm rate tariffs. This recommended rate would cause a decrease to the Company's firm rate tariffs of 7.977 cents per therm.

A Stipulation was then entered into the Record between SCE&G and the Consumer Advocate, which showed, among other things, an agreement on the proposed levelized cost of gas, an agreement on the legal fees for environmental clean-up costs, and on the level of the MGP-ECC factor remaining the same at $.006 per therm. Further, the two parties agreed that any settlement proceeds, net of legal fees, should be used to offset the current MGP-ECC. This agreement is attached hereto as Exhibit A.

The Commission Staff presented the testimony of Joe Maready, Brent Sires, and William O. Richardson. Maready testified as to various under-recoveries seen by SCE&G in its recovery of gas costs through the PGA. He also reviewed the collection of the Environmental Clean-Up Costs. Sires testified regarding SCE&G's gas supply purchases from SCPC. Sires testified that his observations of SCE&G's gas purchasing policies indicate that the Company receives adequate supplies of firm gas to meet its captive customers' needs. Also, according to Sires, SCE&G is able to compete with industrial alternate fuels prices through the operation of the ISP-R. Sires also stated that it was the Utilities Department's opinion that the ISP-R has provided SCE&G with the opportunity to retain the industrial gas loads in competition with alternate fuels.

Richardson testified that a reduction of the base cost of gas as proposed by the Company would decrease the bill of a residential customer using 100 therms of gas by $7.97 per month. Such a customer's average yearly bill would decrease by $47.86.

FINDINGS AND CONCLUSIONS

Based on the evidence in the record, the Commission makes the following findings and conclusions:

SCE&G testified that its forecasted cost of gas was based on the latest historic actual period of the 12 months ending August 1995. During this historical actual period, adjustments were made for known and measurable changes, such as changes to rates from

SCE&G's intrastate supplier and tariff changes from interstate suppliers to its intrastate supplier that are in effect or scheduled to be in effect during the forecasted period November 1995 through October 1996. Certain take-or-pay charges from SCE&G's supplier were also included in the forecast, as were certain other charges. The Company also made other normalizing adjustments to the historic period in developing the forecasted price of natural gas to its customers. Based on this testimony, the testimony of Staff witnesses Maready, Sires, and Richardson, and the record as a whole, the Commission finds that: a) the cost of gas of 43.081 cents per therm is appropriate, and should be incorporated in SCE&G's firm tariff rates through October 1996, unless an out-of-period adjustment is found necessary due to changes in the Company's gas costs; b) in addition, the Commission believes that, based on the testimony, the Company should also be able to continue to collect an additional $.006 per therm in order to recover the ECC as testified to by the Company witnesses. The Commission also believes that a yearly review as is provided by passing this cost through the PGA is helpful and is in the public interest. The Commission would again note that this amount is in addition to the already approved 43.081 cents per therm; c) the ISP-R Program should be continued, based on the fact that it allows the Company to compete successfully for the industrial customers against alternative fuels; d) a review of the testimony in the record as a whole shows that SCE&G's purchasing practices are prudent, and that their gas supplies are adequate to meet the requirements of firm customers; e) the Stipulation between the Company and the Consumer Advocate should be approved and adopted by this Commission.

IT IS THEREFORE ORDERED THAT:

1. The Purchased Gas Adjustment of South Carolina Electric & Gas Company is hereby approved.

2. The gas cost of 43.081 cents per therm shall be effective beginning with the first billing cycle in November 1995.

3. In addition to this figure, the Company will continue to add a factor of $0.006 per therm in the PGA, related to the environmental clean-up costs. Staff shall review and audit the Company's collection of these additional monies as part of Staff's yearly review of the Company's PGA and Gas Purchasing Policies. The legal fees incurred as the result of environmental clean-up of $32,000 will be recovered through the $.006 per therm increment.

4. The tariffs and rate schedules shall be filed reflecting the findings herein within five (5) days of the receipt of this Order by the Company.

5. For the period September 1994 through August 1995, SCE&G's gas purchasing practices and the recovery of its gas costs were prudent and undertaken in accordance with tariffs and rate schedules approved by the Commission for South Carolina Pipeline Corporation and SCE&G.

6. The Stipulation is approved and adopted.

7. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

Rudolph Mitchell
Chairman

ATTEST:

Executive Director

(SEAL)

EXHIBIT A
Docket No. 95-161-G
Order No. 95-1617

STATE OF SOUTH CAROLINA

BEFORE THE PUBLIC SERVICE COMMISSION

DOCKET NO. 95-161-G

IN THE MATTER OF: South Carolina Electric & Gas Company Annual Review of the Purchased Gas Recovery Procedures, Gas Purchasing Policies and Setting Cost of Gas for Billing	)	STIPULATION

WHEREAS, the Parties to this Stipulation are the Consumer Advocate for the State of South Carolina (Consumer Advocate) and South Carolina Electric & Gas Company (SCE&G), collectively referred to herein as the "Parties";

WHEREAS, the Parties represent all the parties of record in Docket 95-161-G apart from the Staff of the South Carolina Public Service Commission (Staff);

WHEREAS, the Public Service Commission requires an annual review of the Purchased Gas Adjustment and the Gas Purchasing Policies of South Carolina Electric & Gas Company. The Commission requires the Staff to make an annual audit, to report to the Commission the results of the audit, and to make the results available to the Company and the Consumer Advocate upon completion;

WHEREAS, the audit for the current period has been conducted and disseminated as required;

WHEREAS, the Commission has ordered a public hearing concerning the annual review for the current period to commence on

October 19, 1995 at 10:30 a.m. in the Commission's hearing room, 111 Doctors Circle, Columbia, South Carolina;

WHEREAS, the Company and Staff have prefiled testimony in Docket 95-161-G concerning SCE&G's purchased gas adjustment and the gas purchasing policies;

WHEREAS, the Parties have carefully reviewed the information contained in the prefiled testimony of the witnesses for the Company and the Staff;

WHEREAS, the Company has proposed a decrease in its levelized cost of gas from $0.51058 to $0.43081 per therm for the period November 1995 - October 1996;

WHEREAS, the Company has advised the Consumer Advocate that a settlement agreement will likely be reached by the Company and an insurance carrier regarding the Company's claim for coverage for environmental liabilities relating to MGP sites;

WHEREAS, the Company has proposed to include certain legal expenses associated with seeking insurance proceeds to assist with cleanup costs in the costs to be recovered by the MGP-ECC factor;

WHEREAS, the Company has proposed to use settlement proceeds, net of legal expenses, to offset the current MGP-ECC unamortized balance, and to eliminate the balance in 3½ years instead of the previously proposed period of 7 years;

WHEREAS, the Company has proposed that the level of the MGP-ECC factor remain at $.006 per therm;

WHEREFORE, the Parties have agreed, and do hereby stipulate to the following matters related to the Company's purchased gas adjustment and gas purchasing policies which if adopted by the Commission in the order on the merits in this proceeding will, within the scope of the matters addressed herein, result in a reasonable cost of gas for the period November 1995 - October 1996.

1. SCE&G's gas purchasing policies have secured adequate supplies of firm gas to meet the Company's core market needs.

2. The Consumer Advocate does not contest the prudency of SCE&G's gas purchasing practices for the period subject to review, given the Commission's presently approved methodology and tariffs for South Carolina Pipeline Corporation.

3. A forecasted gas cost of $0.43081 per therm provides a reasonable projection of the actual gas cost anticipated during the period November 1995 through October 1996 and this factor should be effective beginning with the first billing cycle of November 1995.

4. The level of the MGP-ECC factor should remain at $.006 per therm. The Consumer Advocate does not contest the inclusion of legal expenses associated with seeking insurance proceeds to assist with cleanup costs as part of the environmental cleanup costs to be recovered by the MGP-ECC factor, including the $32,000 of directly incurred legal expenses set forth in Exhibit CMF-1 attached to the prefiled testimony of Carey M. Flynt. The Consumer Advocate further does not contest the elimination of the current MGP-ECC unamortized balance in 3½ years.

Francis P. Mood
Attorney for South Carolina
Electric & Gas Company

Elliott F. Elam, Jr.
Attorney for Consumer Advocate

October 17, 1995
Columbia, SC